MONTHLY ECONOMIC UPDATE

3 JUNE 2025

ECONOMIC RESEARCH

IMRAN NURGINIAS IBRAHIM
FARAH ZAZREEN ZAINUDIN
NOR LYANA ZAINAL ABIDIN
KHAYRIN FARZANA FAZLI

BANK ISLAM

KEY TAKEAWAYS

- **The U.S.–Iran negotiations remained fragile in May 2026, even as both sides made notable progress toward a framework aimed at reducing regional tensions and preventing further disruptions to global energy markets**. Talks focused on Iran's nuclear programme, sanctions relief, and security arrangements in the Strait of Hormuz. However, the situation stayed precarious following recent military attacks and security incidents in the region, which raised concerns that tensions could escalate and derail diplomatic efforts. Key disputes also persisted over uranium enrichment limits and the sequencing of sanctions removal. The prospect of a deal helped improve investor sentiment and eased concerns over oil supply risks. Regional mediators continued to support the negotiations, highlighting the importance of a diplomatic resolution. Overall, while May ended with cautious optimism, the path toward a comprehensive agreement remained uncertain amid lingering geopolitical risks.

- **The U.S. second estimate of 1Q2026 GDP recorded a slower pace of growth, expanding by 1.6% (previous estimate: 2.0%), but still higher than the 0.5% pace in 4Q25 despite mounting geopolitical and inflationary pressures**. GDP in 1Q2026 was supported by strong business investment, particularly in AI-related equipment and technology spending, even as consumer spending moderated to 0.95%. Underlying domestic demand stayed firm, with real final sales to private domestic purchasers rising 2.4%, indicating that economic momentum remained intact. On the inflation front, April CPI accelerated to 3.8% y-o-y, driven largely by a 17.9% surge in energy prices amid the ongoing Middle East conflict. Core inflation pressures also remained elevated as higher shelter and services costs offset weakness in some goods categories. While softer consumer demand and moderating wage growth may help contain price pressures over time, persistent geopolitical tensions continue to pose upside risks to inflation. As a result, inflation is expected to remain elevated through mid-2026.

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- **Malaysia's 1Q26 GDP growth eased to 5.4% y-o-y from 6.3% in 4Q25, slightly above the advance estimate of 5.3%.** The slowdown was broad-based, led by private consumption at 4.7% (4Q25: 5.6%), its weakest since 3Q24, while public consumption also moderated (4.1%; 4Q25: 6.6%). Investment growth softened, with GFCF slowing to 7.3% (4Q25: 9.3%) as both private and public investment lost momentum. Public investment was sluggish as major infrastructure projects neared completion, while private investment faced higher input costs and global uncertainty. Net exports rebounded 13.5% y-o-y after four quarters of contraction, offsetting weaker domestic demand, though their GDP contribution was modest. Rising energy prices from the U.S.–Iran conflict eroded household purchasing power, weighing on spending in transport, communication, and restaurants & hotels. Inflationary pressures and tighter fiscal space are expected to temper household demand and investment further. Despite these headwinds, the full-year growth forecast is maintained at 4.7%, though risks are tilted to the downside amid fragile global conditions and geopolitical tensions.

SECTION 1

Economic Pulse at a Glance

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THE HEAT MAP OF KEY ECONOMIC INDICATORS

Period	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	2Q2025	3Q2025	4Q2025	1Q2026	2024	2025	2026f
Country	Industrial Production Index (IPI), y-o-y %						GDP, y-o-y %				GDP, y-o-y %		GDP Projection, IMF
U.S.	2.1	1.4	1.1	0.9	0.8	1.1	2.0	2.4	2.0	2.0	2.8	2.1	2.3
Euro	2.1	1.9	-0.6	-0.8	-2.1	-	1.5	1.6	1.6	-	1.1	1.5	1.1
UK	0.0	3.0	-1.5	-0.5	2.1	-	1.3	1.1	0.8	0.3	1.1	1.4	0.8
Japan	-4.2	0.9	0.7	0.4	2.4	2.3	2.0	0.5	0.2	0.6	-0.2	1.2	0.7
China	4.8	5.2	NA	NA	5.7	4.1	5.2	4.8	4.5	5.0	5.0	5.0	4.4
Singapore	8.2	10.9	9.9	3.6	9.2	17.6	5.4	4.5	5.7	6.0	5.3	5.0	3.5
Malaysia	4.1	4.8	5.9	3.1	3.1	-	4.4	5.4	6.3	5.4	5.1	5.2	4.7
Indonesia	2.3	6.1	NA	NA	NA	-	5.1	5.0	5.4	5.6	5.0	5.1	5.0
Thailand	-3.7	2.6	1.6	-0.2	1.3	-0.4	2.8	1.2	2.5	2.8	2.9	2.4	1.5
Philippines	0.1	0.4	0.3	3.1	7.8	-	5.4	4.0	3.0	2.8	5.7	4.4	4.1
Vietnam	9.1	10.1	19.4	0.6	6.9	9.3	8.2	8.3	8.5	7.8	7.0	8.0	7.1

Positive
Neutral
Negative

Sources: IMF, World Bank, CEIC, Bloomberg, Trading Economics, Bank Islam
Note: NA – Data not available, Indonesia's IPI is published on a quarterly basis

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THE HEAT MAP OF KEY ECONOMIC INDICATORS

Period	Feb-26	Mar-26	Apr-26	Feb-26	Mar-26	Apr-26	Feb-26	Mar-26	Apr-26	Feb-26	Mar-26	Apr-26
Country	Manufacturing PMI			Exports, y-o-y %			Retail Sales, y-o-y %			Unemployment Rate, %		
U.S.	51.6	52.3	54.5	16.5	15.7	14.9	4.2	4.2	4.9	4.7	4.3	4.0
Euro	50.8	51.6	52.2	-9.0	-8.7	-	1.3	1.2	-	6.3	6.2	-
UK	51.7	51.0	53.7	-21.6	-13.7	-	1.5	3.2	-2.4	4.9	5.0	-
Japan	53.0	51.6	55.1	4.0	11.5	14.8	-0.1	1.4	2.1	2.6	2.8	2.7
China	52.1	50.8	52.2	39.6	2.5	14.1	NA	1.7	0.2	5.3	5.4	5.2
Singapore	50.6	50.5	50.7	11.0	41.0	31.8	7.6	1.8	-	NA	1.9	NA
Malaysia	49.3	50.7	51.6	10.7	8.4	36.9	4.9	5.1	-	2.9	2.9	-
Indonesia	53.8	50.1	49.1	1.0	-3.1	22.0	6.5	3.4	-1.9	NA	NA	NA
Thailand	53.5	54.1	52.7	0.3	9.7	19.1	31.4	21.1	-	0.9	1.0	1.0
Philippines	54.6	51.3	48.3	8.9	20.8	6.3	NA	NA	NA	5.1	5.0	-
Vietnam	54.3	51.2	50.5	5.8	20.3	22.2	13.7	10.3	11.9	NA	2.2	NA

Positive
Neutral
Negative

Sources: CEIC, Bloomberg, Trading Economics, Bank Islam
Note: NA – Data not available, Singapore and Vietnam unemployment rate are published on a quarterly basis
Indonesia's unemployment rate is published semiannually

THE HEAT MAP OF KEY ECONOMIC INDICATORS

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Period	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26
Country	Consumer Price Index (CPI), y-o-y %						Producer Price Index (PPI), y-o-y %					
U.S.	2.7	2.7	2.4	2.4	3.3	3.8	3.1	3.2	3.1	3.4	4.3	6.0
Euro	2.4	2.3	2.0	2.1	2.8	3.2	-1.0	-1.6	-1.5	-2.3	1.7	-
UK	3.2	3.4	3.0	3.0	3.3	2.8	3.4	3.1	2.5	1.8	3.0	4.1
Japan	2.9	2.1	1.5	1.3	1.4	1.3	2.7	2.4	2.4	2.1	2.9	4.9
China	0.7	0.8	0.2	1.3	1.0	1.2	-2.2	-1.9	-1.4	-0.9	0.5	2.8
Singapore	1.2	1.2	1.4	1.2	1.8	1.8	6.3	-1.2	1.4	5.4	20.2	27.5
Malaysia	1.4	1.6	1.6	1.4	1.7	1.9	-1.8	-2.7	-2.9	-3.4	1.1	5.4
Indonesia	2.7	2.9	3.5	4.8	3.5	2.4	2.3	2.8	1.7	2.4	2.3	3.8
Thailand	-0.5	-0.3	-0.7	-0.9	-0.1	2.9	-1.6	-1.8	-1.6	-0.5	6.0	9.1
Philippines	1.5	1.8	2.0	2.4	4.1	7.2	0.1	1.0	1.3	1.3	2.6	2.4
Vietnam	3.6	3.5	2.5	3.4	4.7	5.5	NA	0.5	NA	NA	NA	-

Positive
Neutral
Negative

Sources: CEIC, Bloomberg, Trading Economics, Bank Islam
Note: NA – Data not available, Vietnam's PPI is published on a quarterly basis

SECTION 2

Malaysia’s Financial Market

REGIONAL EQUITY: AI DEMAND FUELS REGIONAL STOCK GAINS

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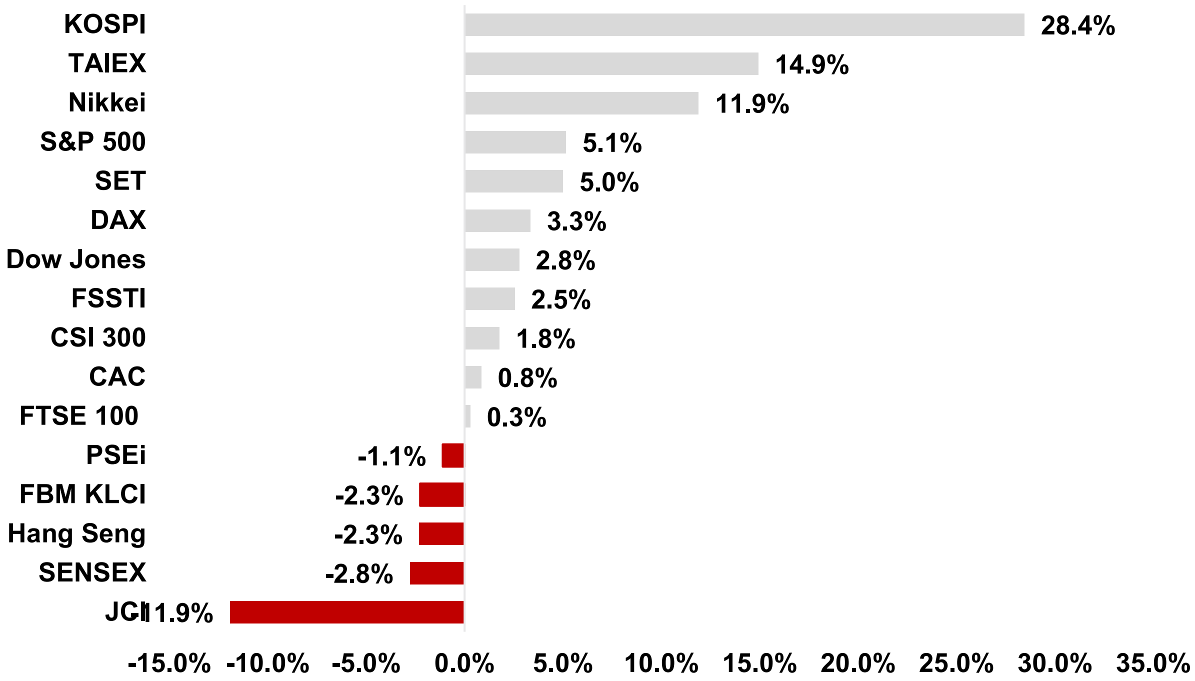
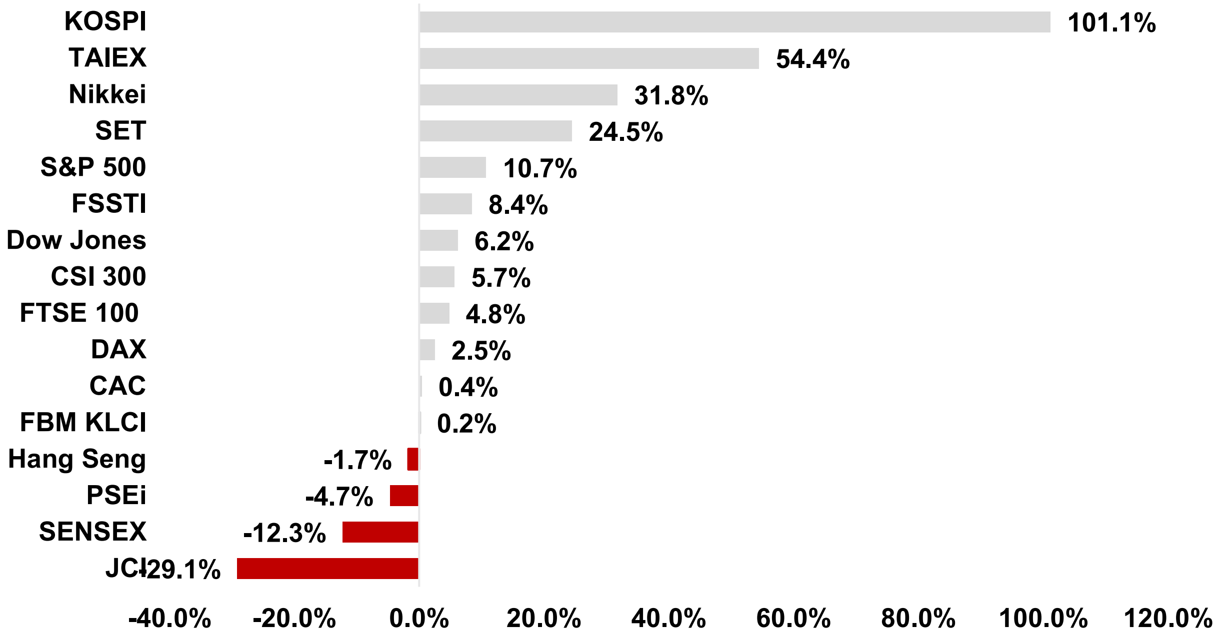
Monthly Gain/Loss of Major Equity Markets, m-o-m%



YTD Gain/Loss of Major Equity Markets, % (As of 31 May 2026)



Sources: Bursa, CEIC data

- Regional equity markets were mostly in the green in May, led by South Korea's KOSPI, which remained the top gainer with a surge of 28.4%. The rally was fueled by the global AI semiconductor boom, with the index breaking past the 8,000-point mark for the first time on May 15, highlighting Korea's pivotal role in supplying high-bandwidth memory chips essential for AI infrastructure.
- Similarly, Taiwan's TAIEX posted strong double-digit growth of 14.7%, buoyed by robust demand for AI infrastructure, advanced semiconductors, and high-performance computing, which also supported the nation's exports performance.
- In the U.S., equities extended gains, with the S&P 500 rising 5.1% and the Dow Jones advancing 2.8%, driven by strong technology sector performance and optimism around AI-related earnings.
- YTD, South Korea's KOSPI stood out as the top performer, surging by 101.1%, reflecting the extraordinary momentum in AI-linked semiconductor demand

DOMESTIC EQUITY: PERSISTENT GEOPOLITICAL TENSIONS CONTINUED TO WEIGH ON INVESTOR RISK APPETITE

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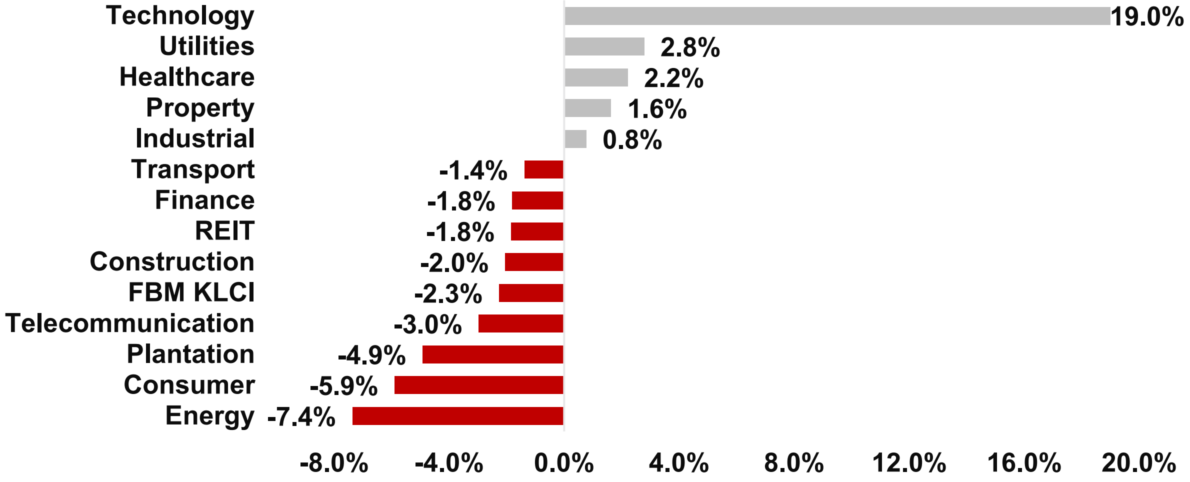
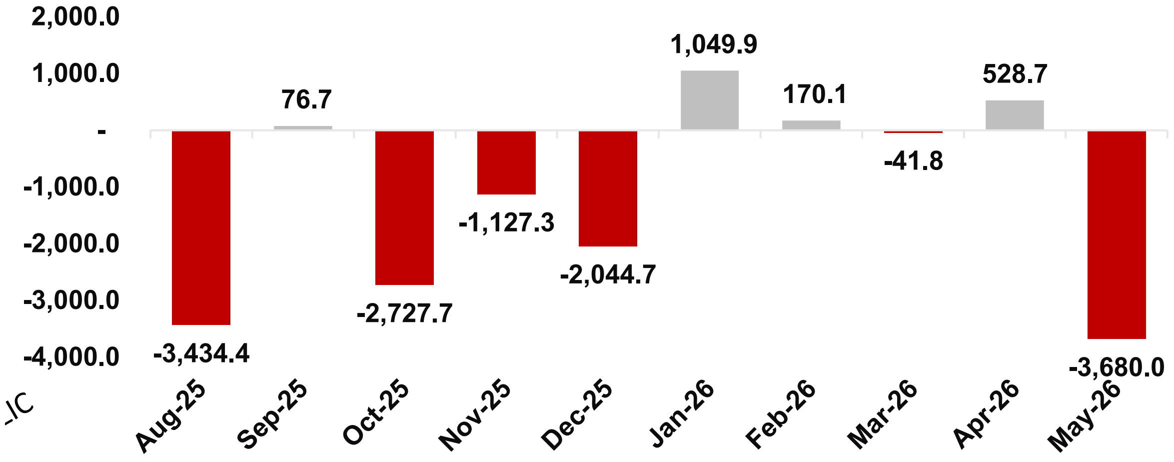
Weekly Bursa Sectoral Performance, w-o-w%



Monthly Foreign Fund Net Inflows/Outflows, RM Million

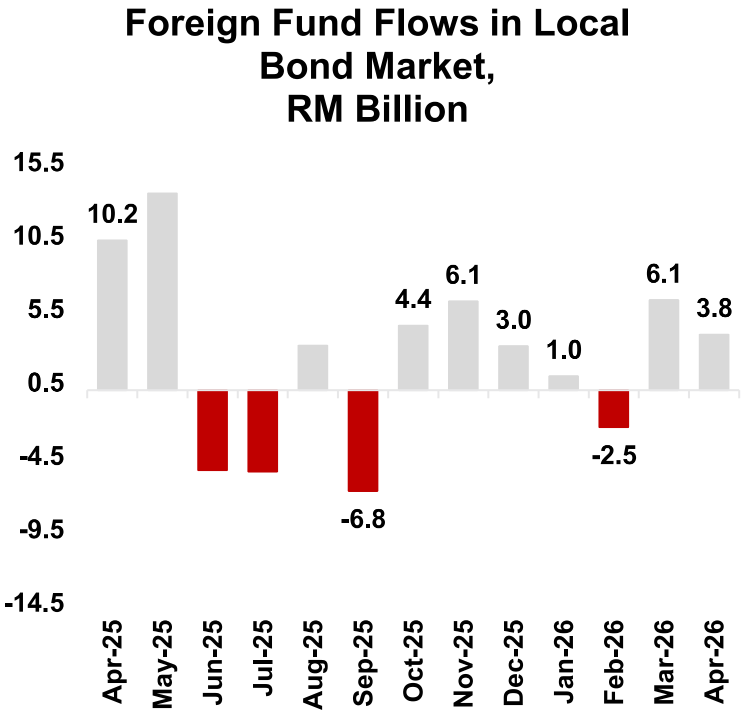


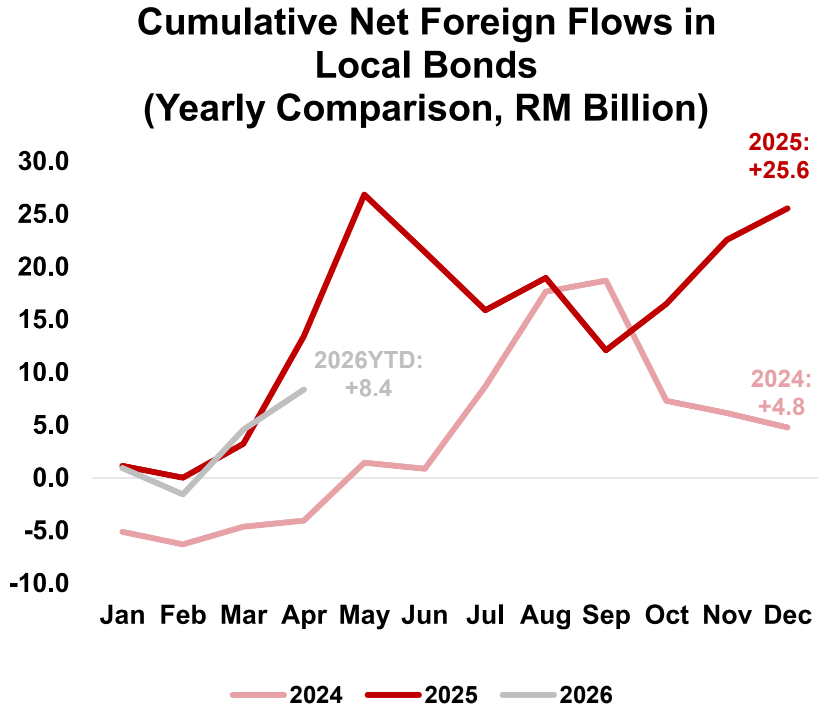
Sources: DOSM, CEIC Data

- The FBM KLCI declined by 2.3% m-o-m in May as persistent U.S.-Iran geopolitical uncertainties continued to weigh on global risk appetite. Despite the ceasefire announced in early April, there appeared to be little progress towards achieving a lasting resolution and ending the maritime restrictions across the Gulf region, particularly in the Strait of Hormuz.
- Against this backdrop, investors maintained a defensive stance which favored resilient sectors. This was reflected in gains in the Utilities (+2.8%) and Healthcare (+2.2%) indices during the month. In contrast, cyclical and commodity-related sectors underperformed with the Energy index plunging by 7.4%, followed by the Consumer (-5.9%) and Plantation (-4.9%) indices.
- Separately, the global digitalisation wave and rising AI adoption continued to fuel optimism in the technology sector. Given Malaysia's strategic position within global value chains, this momentum drove strong buying interest in the Technology index, which surged by 19.0% m-o-m, marking the highest close since August 2024.
- Foreign investors turned net seller in April, with a net outflow of RM3.68 billion. This increased the cumulative net foreign outflows for 2026 to RM2.0 billion.

FIXED INCOME: PERSISTENT INFLATION PRESSURES DRIVE YIELD GAINS

Monthly changes, basis points (bps)			
UST	**Yields (%) 30-Apr-26**	**Yields (%) 29-May-26**	**Change (bps)**
3-Y UST	3.91	4.06	15
5-Y UST	4.02	4.13	11
7-Y UST	4.20	4.27	7
10-Y UST	4.40	4.45	5
MGS	**Yields (%) 30-Apr-26**	**Yields (%) 29-May-26**	**Change (bps)**
3-Y MGS	3.20	3.23	3
5-Y MGS	3.34	3.41	7
7-Y MGS	3.46	3.56	10
10-Y MGS	3.56	3.59	3
GII	**Yields (%) 30-Apr-26**	**Yields (%) 29-May-26**	**Change (bps)**
3-Y GII	3.19	3.22	4
5-Y GII	3.32	3.37	5
7-Y GII	3.49	3.56	7
10-Y GII	3.57	3.61	4





Sources: BNM, Federal Reserve Board

- In May, the U.S. Treasury (UST) yields closed higher, rising between 5bps and 15bps, due to persistent inflation pressures, surging energy linked to the U.S.-Iran conflict, and expectations that the Federal Reserve may keep interest rates higher for longer. The U.S. inflation rate in April remained elevated, rising by 3.8% y-o-y while PPI surged 6.0% during the same month. Strong inflationary expectations, reinforced by sustained oil price shocks have led to upward pressure on Treasury yields.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields also ended higher in May by between 3bps and 10bps.
- Foreign fund flows in the local bond market recorded a net foreign inflow of RM3.8 billion in April (Mar: RM6.1 billion). Consequently, local govvies' foreign shareholdings to total outstanding increased to 22.0% in April (Mar: 21.9%).
- As of the first four months 2026, the local bond market recorded the cumulative net foreign inflows of RM8.4 billion, lower than the inflows of RM13.5 billion in the same period in the previous year.

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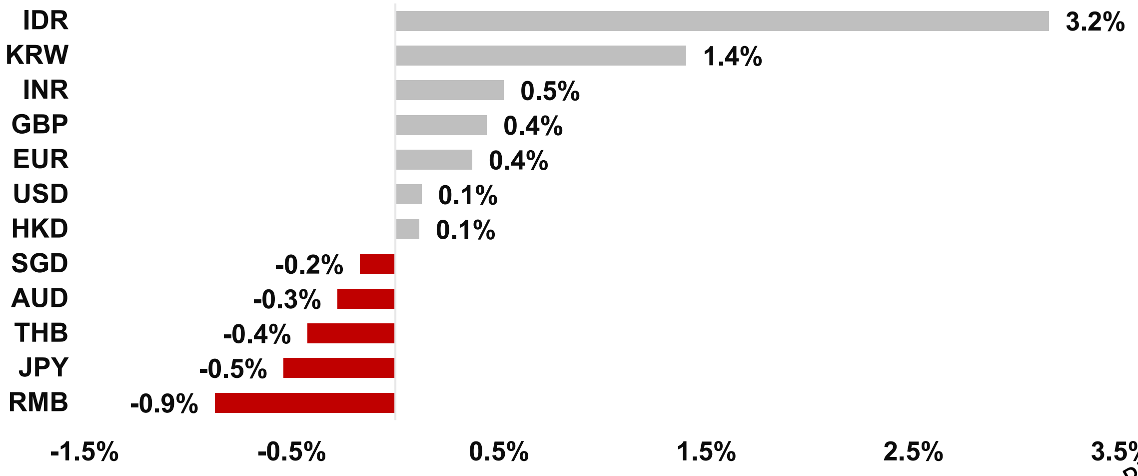
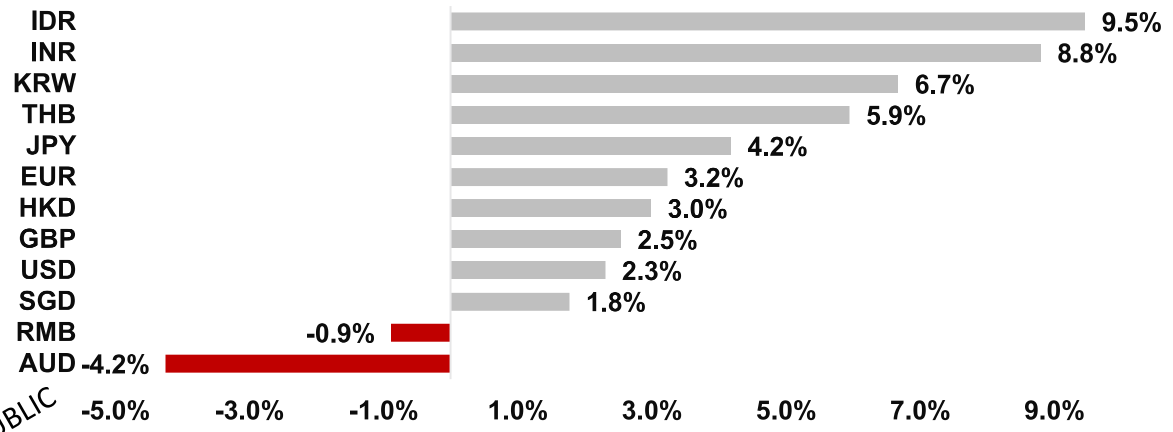
FX MARKET: RINGGIT ENDED THE MONTH MARGINALLY HIGHER FOLLOWING REPORTS OF A FRAMEWORK FOR A 60-DAY CEASEFIRE EXTENSION

MYR Against Regional Currencies, w-o-w%



MYR Against Regional Currencies, YTD%
(As of 29 May 2026)



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Sources: Bank Negara Malaysia (BNM), Federal Reserve, CEIC Data

- The Ringgit appreciated marginally by 0.1% m-o-m against the USD in May, despite the USD index strengthening by 0.9% amid prolonged uncertainties over the U.S.-Iran conflict.
- In the earlier half of the month, growing optimism over ongoing U.S.-Iran negotiations and a potential resolution to the conflict lifted investor risk sentiments, prompting a recalibration of flows away from safe-haven assets. This exerted pressure on the USD index, and it wtraded with a bearish bias within the 97.80-98.50 range.
- However, this proved short-lived as progress in negotiations remained limited with the main sticking points emerging from Iran’s nuclear program and governance over the Strait of Hormuz. Moreover, sentiments were further clouded by mixed signals stemming from U.S. President Trump’s inconsistent political rhetoric, marked by threats of resumed military operations followed by reversals. Such threats were met with promises of retaliation by Iran, rattling markets with the possibility of renewed escalation. Consequently, the USD index broke decisively above the 99.00 resistance level on 15 May and traded above this level for the rest of the month.
- More recently, U.S. and Iran have reportedly drafted a framework for a 60-day ceasefire extension, which tentatively includes provisions to reopen the Strait of Hormuz and lift the U.S. naval blockade on Iran. While the development initially triggered a pullback in the USD, which pushed the USD/MYR currency pair below the 3.95-support zone, sentiments remained cautious as investors await for firmer confirmation of the deal.

SECTION 3

The Global Economy

ENERGY-DRIVEN COST SHOCK DROVE HEADLINE INFLATION SIGNIFICANTLY HIGHER, REINFORCES THE LIKELIHOOD OF A HIGHER-FOR-LONGER FED

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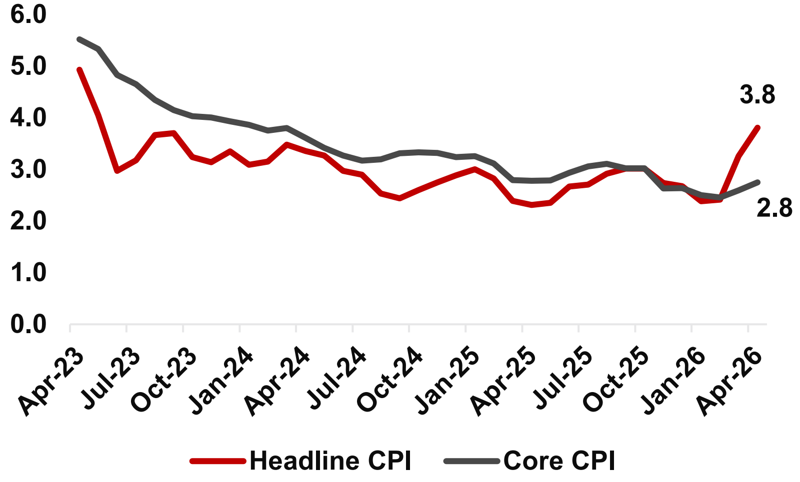
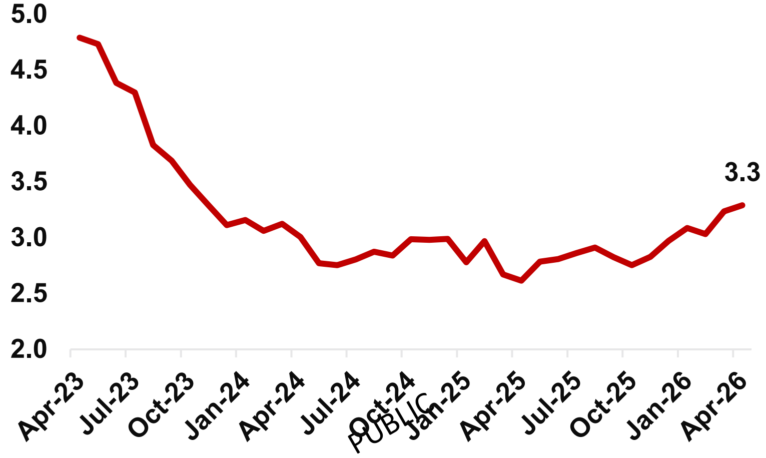
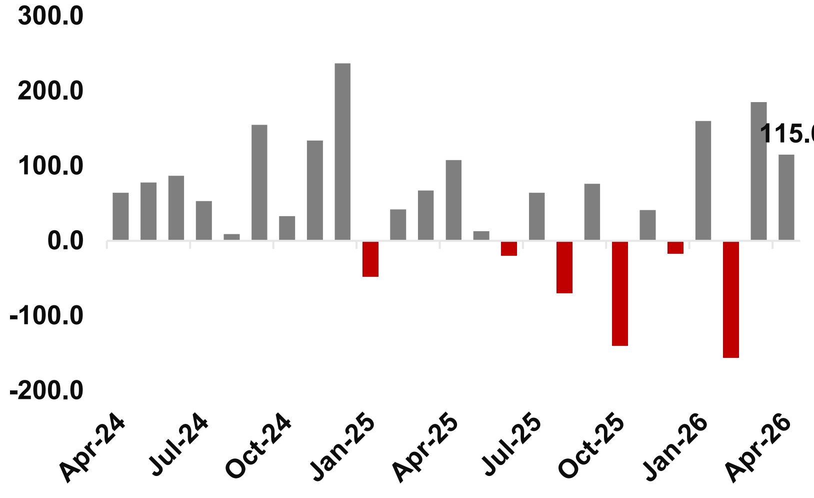
Inflation Rates, y-o-y%



Core Personal Consumption Expenditure (PCE) Inflation, y-o-y%



Nonfarm Payrolls, m-o-m change



Sources: Bureau of Labor Statistics (BLS), CEIC Data

- U.S. headline inflation climbed further to 3.8% y-o-y in April (Mar: 3.3%), the highest since May 2023, against a backdrop of elevated global energy prices linked to the U.S.-Iran conflict. Energy inflation surged to 17.9% from 12.5% in March, underpinned by sharp increases in gasoline (Apr: 28.4% vs. Mar: 18.9%) and fuel oil prices(Apr: 54.3% vs. Mar: 44.2%).
- The energy-driven cost shock further compounded already persistent price pressures, as evidenced by the core personal consumption expenditure (PCE) inflation–the Fed's preferred gauge of underlying inflation–persisting above 2.0% since March 2021 (Apr: 3.3%). This reinforced expectations for the Federal Reserve (Fed) maintaining its Federal Funds Rate (FFR) at 3.50-3.75% in 2026. Markets have also begun pricing in the possibility of policy tightening, particularly with the U.S.-Iran conflict dragging beyond three months which would underpin hotter price pressures for longer. According to the CME FedWatch tool, the probability of a 25-bp hike by September has risen to above 24.0% from near zero a month earlier.
- Additionally, the job market was more resilient than expected, further solidifying the "higher-for-longer" Fed policy stance. Non-farm payrolls increased by 115K in April (Mar: 185K), almost double the consensus estimates of 62K, mainly driven by private employment (Apr: 123K vs. Mar: 190K).
- While the data signaled a moderation in hiring momentum, labour market conditions remain broadly resilient, erasing some concerns that a prolonged Fed pause and tighter financial conditions may exacerbate downside risks to growth.

UK'S HEADLINE INFLATION MODERATED IN APRIL, ALTHOUGH UNDERLYING PRESSURES WARRANT CAUTION

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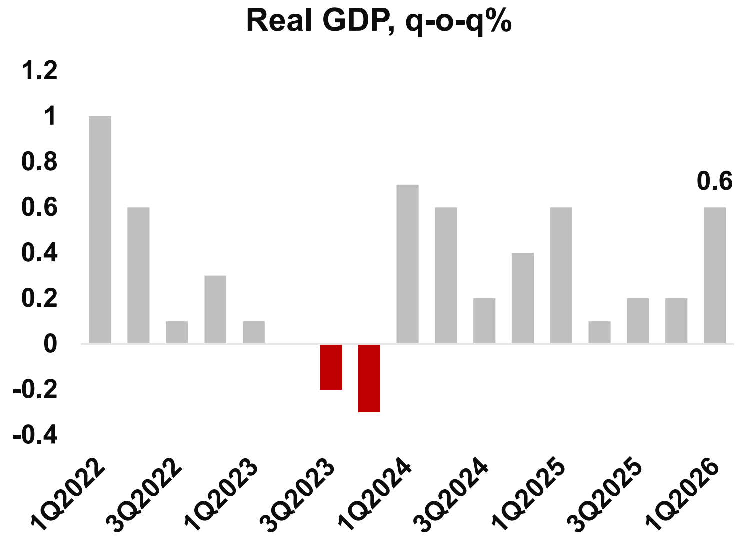

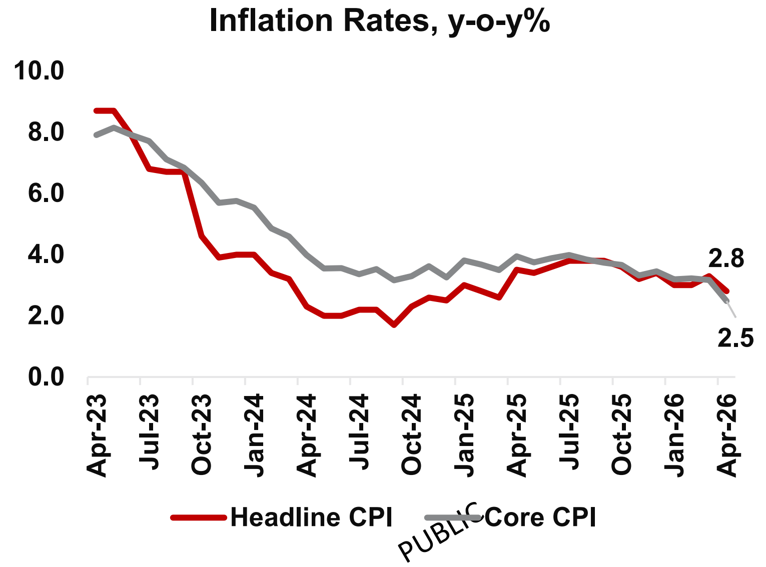

	Apr-25	Jan-26	Feb-26	Mar-26	Apr-26
Transport	3.3	2.7	2.4	4.7	4.5
Operation of Personal Transport Equip (OT)	1.8	3.6	2.7	7.1	10.5
Fuel & Lubricants	-9.3	-2.2	-4.6	4.9	23.0
Electricity, Gas & Other Fuel (EG)	6.7	2.1	2.1	5.0	-5.7
Electricity	4.6	5.3	5.3	5.6	-6.0
Gas	12.2	-2.7	-3.1	-2.8	-13.5
Liquid Fuel	-20.8	-7.0	-5.2	95.3	129.6
Solid Fuel	-1.9	-0.5	-0.6	-0.9	1.4

Sources: Office for National Statistics, CEIC Data

- The UK economy expanded at a four-quarter high of 0.6% q-o-q in 1Q2026 (4Q25: 0.2%), supported by stronger household consumption (1Q26: 0.6% vs. 4Q25: 0.1%) and government spending (1Q26: 0.4% vs. 4Q25: 0.1%). On an annual basis, the economy grew by 1.1% (4Q25: 1.0%), surpassing consensus estimates of a 0.8% growth. With the economy emerging more resilient than expected amid mounting external headwinds, investors are repricing their Bank of England (BoE) policy expectations, eyeing the possibility of an extended pause as the central bank assesses the evolving balance of risks to its mandate.
- Additionally, UK inflation moderated in April amid policy support measures, further granting the BoE greater policy flexibility. Headline inflation eased to 2.8% in April (Mar: 3.3%) following a sharp deceleration in the housing, water, electricity, gas and other fuels component (Apr: 1.4% vs. Mar: 5.3%). This reflects lower wholesale energy costs alongside targeted policy interventions, including the reduction of the energy price cap to £1,641 per year for a typical dual fuel household, effective 1 April.
- Nevertheless, underlying inflationary pressures remain elevated, highlighting persistent energy-related cost pressures in the absence of policy cushioning. Evidently, the operation of personal transport equipment index accelerated to 10.5% (Mar: 7.1%), the fastest since October 2022, driven by fuel prices rising to a more than three-year high (Apr: 23.0% vs. Mar: 4.9%). This increases downside risks to growth, particularly as rising transportation costs and the second-round effects on consumer goods weigh on consumer spending, which warrants caution over the BoE's policy outlook.

STRONGER-THAN-EXPECTED MACROECONOMIC DATA FUELS CASE FOR ADDITIONAL BOJ TIGHTENING

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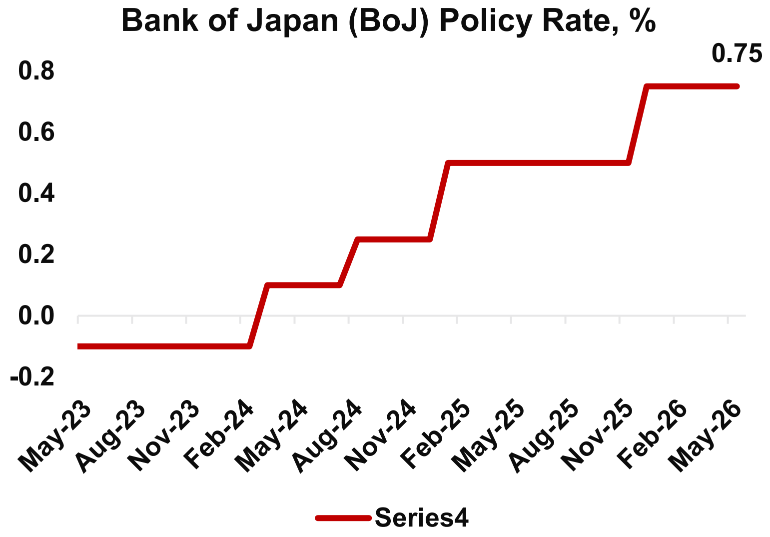

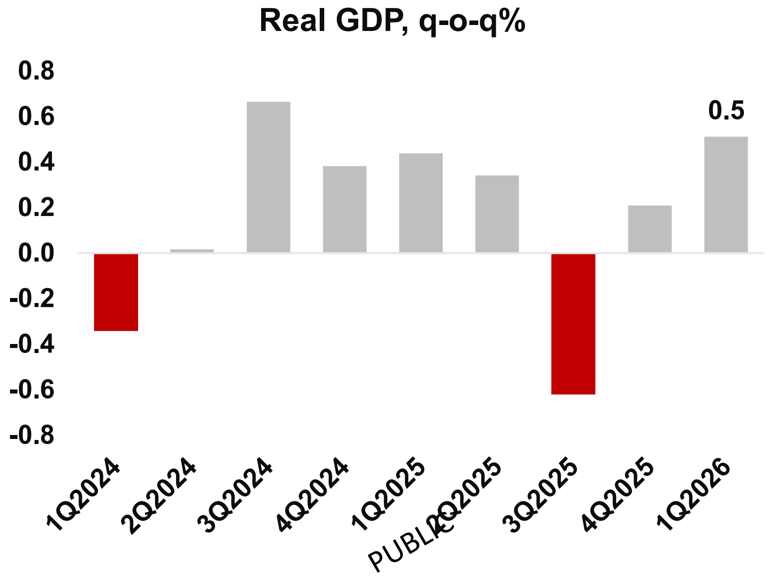

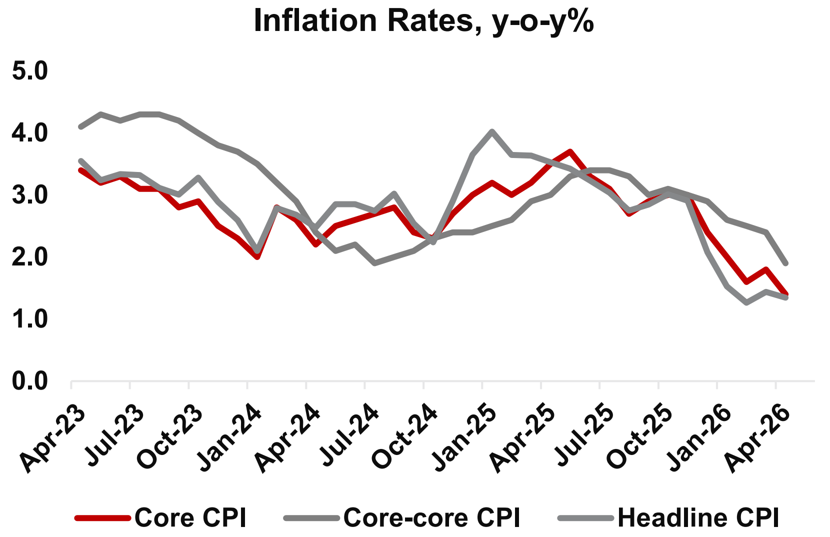

Sources: Office for National Statistics, CEIC Data

- Japan's economy accelerated by 0.5% q-o-q in 1Q2026 (4Q25: 0.2%), marking the fastest pace since 3Q2024, underpinned by firmer private consumption (1Q26: 0.3% vs. 4Q25: 0%), a rebound in public investment (1Q26: 1.4% vs. 4Q25: -0.2%) and stronger export growth (1Q26: 1.7% vs. 4Q25: 0.2%). On an annual basis, the economy expanded at a six-quarter high of 2.1% (4Q25: 0.8%), well above market estimates of 1.7%.
- As such, investors have increasingly priced in the probability of additional policy tightening by the Bank of Japan (BoJ), given that downside risks to the economy have materially eased.
- This view is further reinforced by resilient labour market conditions, with employment rising by 610K to a record-high of 68.76 million while the unemployment rate eased to 2.5% in April (Mar: 2.7%), the lowest level since July 2025.
- Additionally, private consumption has strengthened amid an interplay of steady wage growth, resilient labour market conditions and easing inflationary pressures, which may increase the risk of demand-driven price pressures. Thus, while inflation remained moderate in April, broader risks to the inflation outlook are skewed to the upside amid continued exposure to geopolitical risks and elevated global energy prices. Coupled with a persistently weak Yen, these risks supports the case for further BoJ policy normalisation.
- Of note, Japan's headline inflation moderated to 1.4% in April (Mar: 1.5%) reflecting a broad-based easing across consumer goods. Similarly, core inflation eased to 1.4% (Mar: 1.8%), the lowest level since March 2022, while core-core inflation slipped below 2.0% for the first time since September 2022 (Apr: 1.9% vs. Mar: 2.4%).

SECTION 4

Domestic Landscape & Banking Sector Update

MALAYSIA 1Q26 GDP EXPANDS 5.4%, RISKS TILT TO DOWNSIDE

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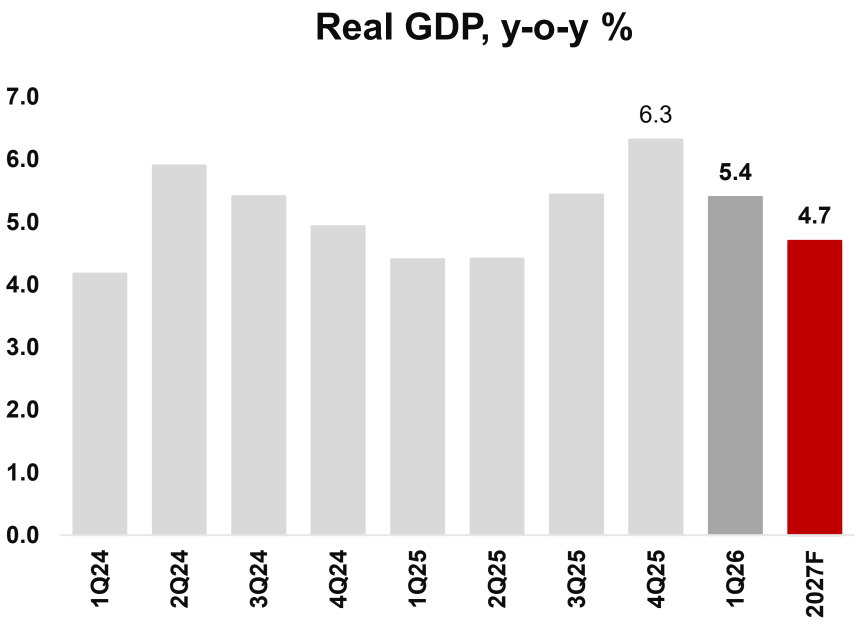

Sources: DOSM, CEIC Data, Bank Islam

Economy	1Q25	2Q25	3Q25	4Q25	1Q26
GDP (by expenditure)	**4.4**	**4.6**	**5.3**	**6.2**	**5.4**
Final Consumption Expenditure	**4.9**	**5.5**	**5.4**	**5.8**	**4.6**
-Private Consumption	4.8	5.1	5.8	5.6	4.7
-Public Consumption	2.7	5.7	5.8	6.6	4.1
Gross Fixed Capital Formation (GFCF)	**9.6**	**12.0**	**7.4**	**9.3**	**7.3**
-Private Investment	9.1	11.7	7.4	9.2	7.8
-Public Investment	11.6	13.5	7.5	9.5	5.3
Net Exports of Good and Services	**-7.9**	**-58.3**	**32.2**	**-32.9**	**13.5**
-Exports	4.3	4.5	4.6	6.3	5.2
-Imports	5.2	7.9	3.0	9.0	4.6
GDP (by economic activity)	**4.4**	**4.6**	**5.3**	**6.2**	**5.4**
-Agriculture	0.7	2.5	0.2	5.7	2.6
-Mining & Quarrying	-2.6	-5.2	9.4	1.4	-2.1
-Manufacturing	4.2	3.7	4.1	6.0	5.9
-Construction	14.2	12.1	11.7	10.9	7.7
-Services	5.1	5.1	5.3	6.2	5.6
-Import duties	4.1	29.1	16.6	19.6	29.2

- Malaysia's 1Q26 growth remained resilient but eased to 5.4% y-o-y (4Q25: 6.3%), but slightly above the advance estimate of 5.3%.
- The slowdown was broad-based, led by softer private consumption which accounts for 62% of total GDP, slipping to 4.7% y-o-y (4Q25: 5.6%), the weakest pace since 3Q24 (4.2%). Public consumption and gross fixed capital formation (GFCF) also weakened, easing to 4.1% (4Q25: 6.6%) and 7.3% (4Q25: 9.3%) respectively.
- Nevertheless, net exports rebounded 13.5% y-o-y after four quarters of contraction, offsetting slower domestic demand. Imports slowed sharply to 4.6% y-o-y from 9.0% in 4Q25, as West Asia geopolitical tensions since late February dampened sentiment, curbing investment and reducing demand for intermediate goods.
- Sector wise, a broad-based slowdown was recorded during the quarter, with the mining sector contracting by 2.1%.
- Despite the moderation in growth in 1Q2026, we maintain our full-year forecast at 4.7% (2025: 5.2%), in line with the IMF's projection. However, the balance of risks has tilted to the downside. Rising global uncertainty amid the prolonged U.S.–Iran conflict, are exerting increasing pressure on the outlook. The external environment will be a key determinant of the growth trajectory, particularly the duration and intensity of the U.S.–Iran conflict, which could influence global demand, commodity prices, and overall investor sentiment.

DOMESTIC PRICE DYNAMICS HAD INCREASINGLY SHIFTED TOWARDS SUPPLY-SIDE COST PRESSURES RATHER THAN DEMAND-DRIVEN

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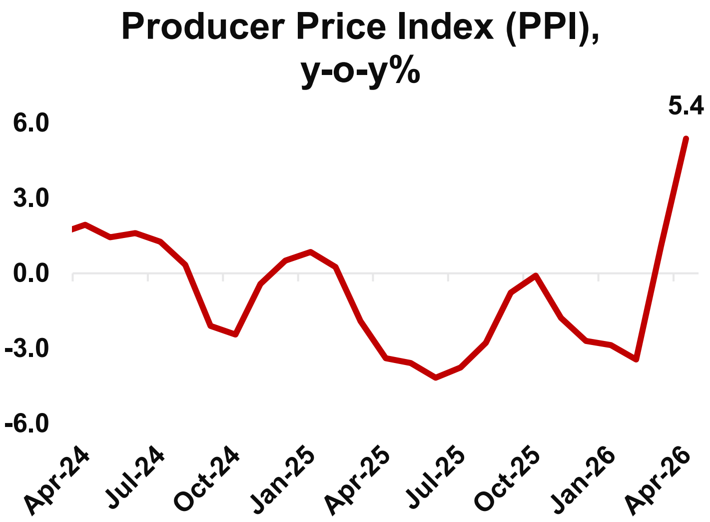

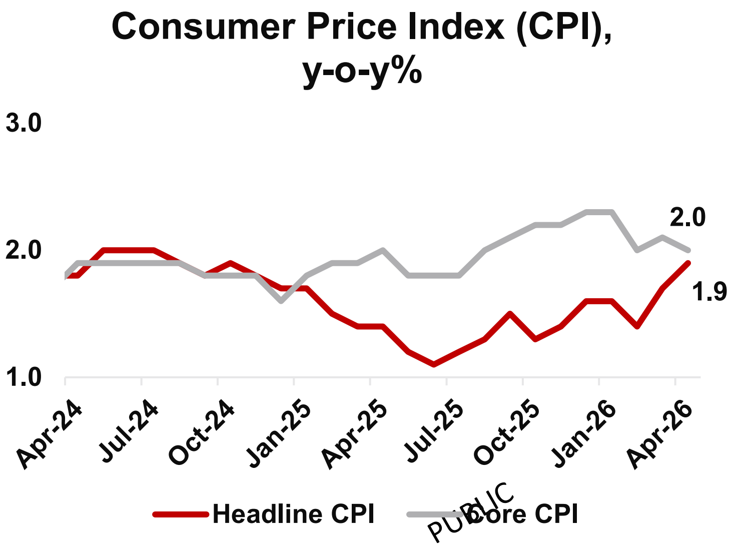

	Apr-25	Jan-26	Feb-26	Mar-26	Apr-26
Transport	0.7	-0.7	-0.7	1.6	4.1
Operation of Personal Transport Equip (OP)	0.9	-1.0	-1.2	1.5	4.8
Diesel	15.0	-2.8	-3.2	16.6	48.5
Petrol	-0.6	-2.7	-3.0	0.5	4.3
Transport Services (TS)	-2.8	0.8	3.8	7.0	7.0
Bus & Coach	1.2	1.2	0.6	1.6	1.7
Rail	1.4	-0.3	-0.4	-0.5	-2.1
Air	-15.2	-1.6	11.5	25.8	25.6
Sea	-0.1	1.1	0.6	0.6	1.5

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Sources: DOSM, CEIC Data

- Malaysia's Producer Price Index (PPI) rose to a 44-month high of 5.4% y-o-y in April, reflecting mounting input cost pressures amid supply chain disruptions and elevated commodity prices linked to U.S.-Iran geopolitical tensions. Notably, pass-through effects were most pronounced in energy-related sectors, with the mining PPI surging to 53.4% (Mar: 26.5%), while electricity and gas costs increased to 10.6% (Mar: 9.6%).
- However, on the consumer front, inflation remained manageable. Headline inflation rose to 1.9% (Mar: 1.7%), supported by policy measures, lagged pass-through effects, and softer underlying pressures, as evidenced by core inflation easing to 2.0% (Mar: 2.1%). Ongoing fuel subsidies continued to cushion households from rising energy costs, including the BUDI95 program, which caps RON95 pump price at RM1.99 per litre, and the monthly BUDI MADANI diesel cash assistance of RM300.
- That said, a closer look reveals emerging cracks in this policy support, highlighting the growing limitations of subsidy coverage against intensifying external headwinds.
- Consumers that have exceeded eligibility thresholds would have to purchase fuel at market prices, an increasingly likely scenario following the reduction in the BUDI95 quota from 300 litres to 200 litres per month, effective April. Evidently, petrol inflation had climbed higher to 4.3% (Mar: 0.5%). Meanwhile, diesel inflation surged to 48.5% (March: 16.6%), indicating that the current assistance is insufficient to offset the magnitude of energy-driven price shocks.

BANKING SECTOR: NON-HOUSEHOLD FINANCING DRIVES STRONGER BANKING SECTOR GROWTH IN APRIL

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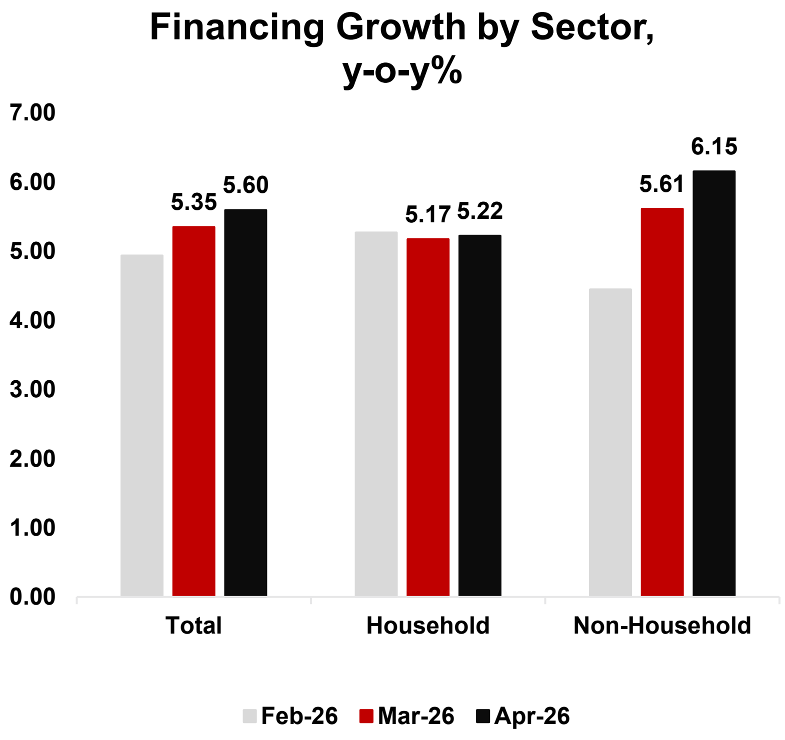

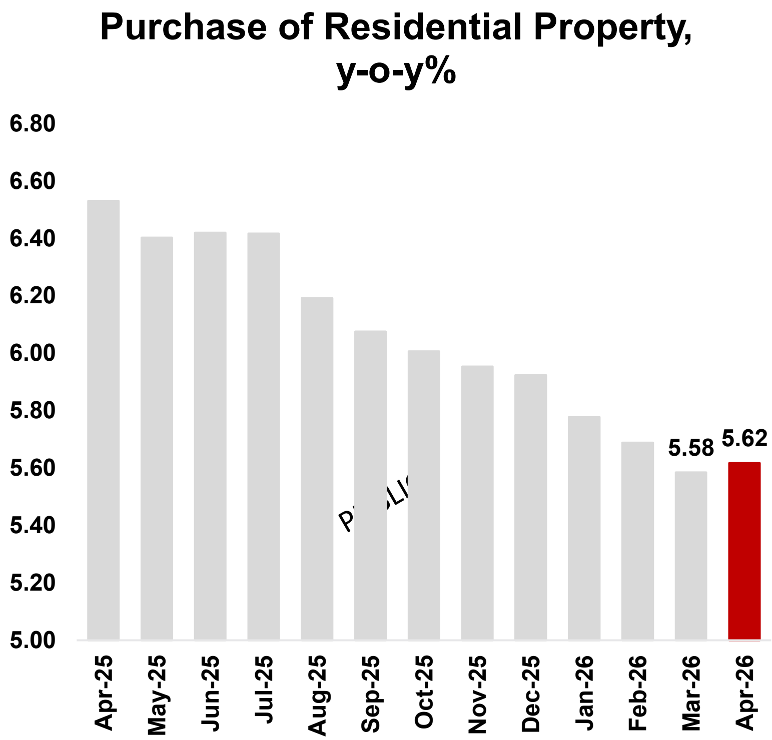

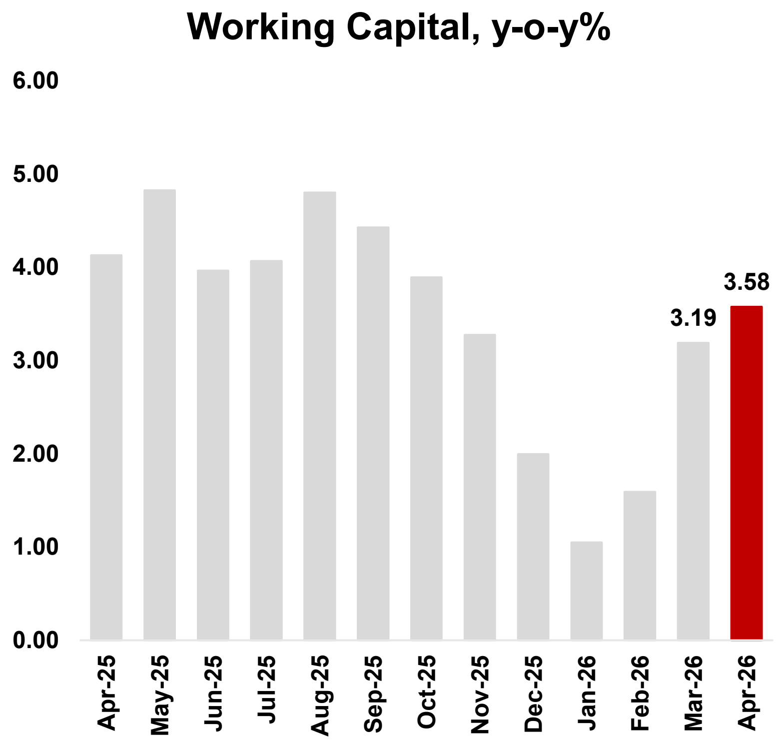

Source: BNM

- Banking sector financing growth accelerated to 5.60% in April (March: 5.35%) amid stronger financing activities in both non-household and household. Non-household segment recorded a stronger expansion of 6.15% (March: 5.61%), while household financing remained relatively stable at 5.22% (March: 5.17%).
- Financing for the purchase of residential property improved only slightly to 5.62% in April from 5.58% previously, suggesting households remain cautious amid affordability concerns and elevated living cost.
- Meanwhile, growth in working capital financing improved further to 3.58% in April compared with 3.19% in March, signaling firmer business financing demand amid rising cost stemming from the U.S.-Iran war. Beyond the U.S.–Iran war–driven cost pressures, April's strong growth was also supported by SME supports programs.

BANKING SECTOR: FINANCING ASSET QUALITY REMAINS STABLE IN APRIL

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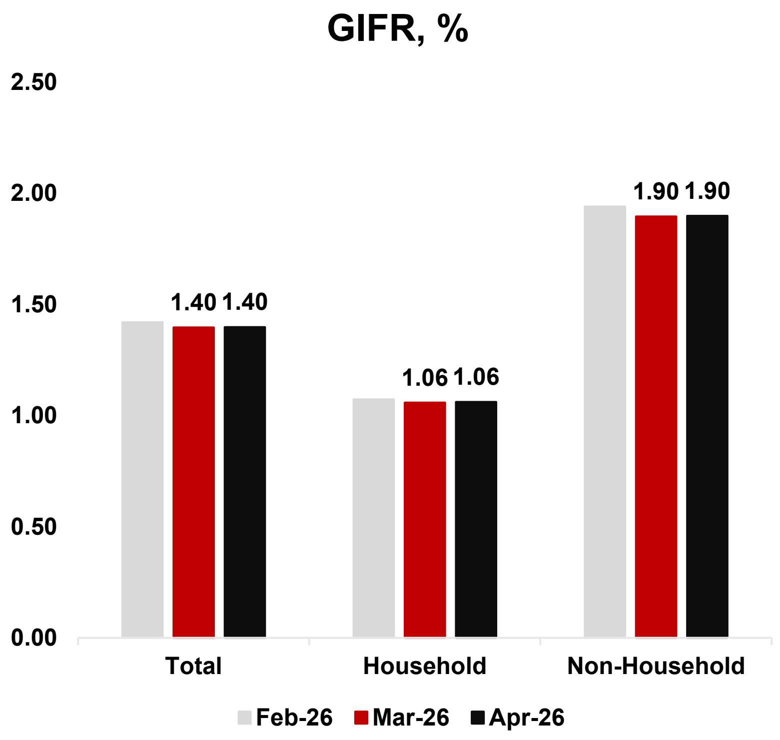

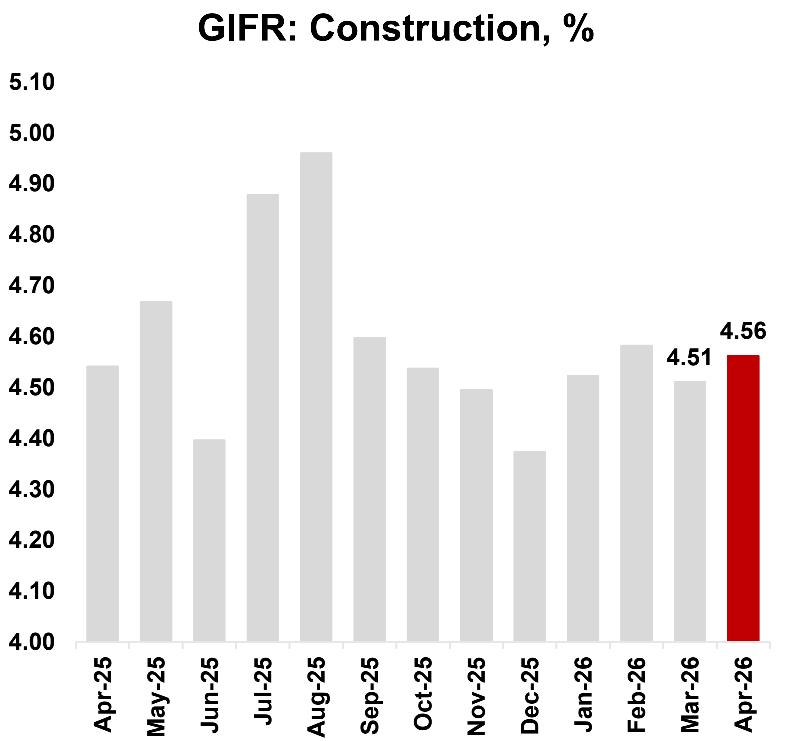

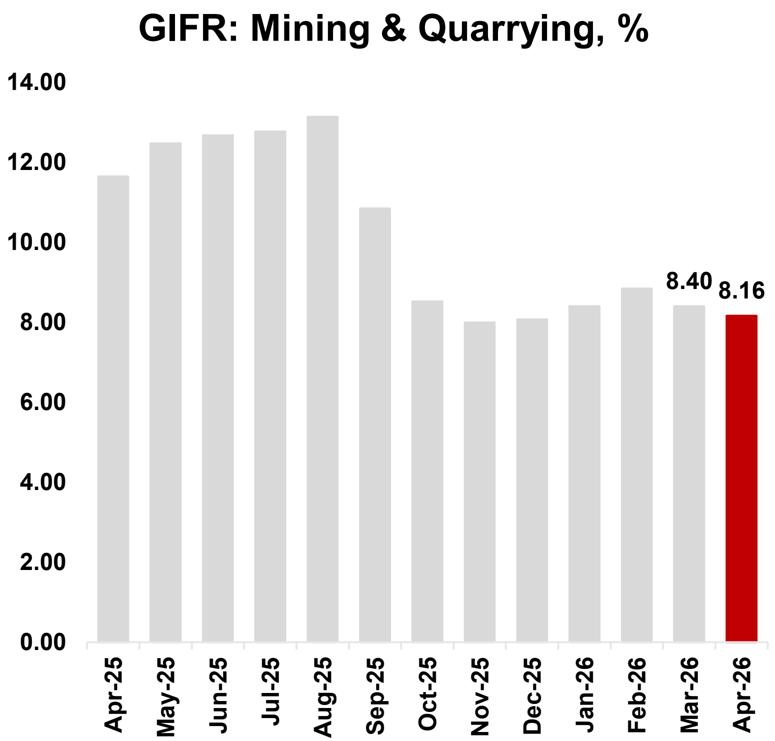

Source: BNM

- Total gross impaired financing ratio (GIFR) in the banking sector remained steady at 1.40% for the second consecutive month, reflecting stable overall asset quality. Both household and non-household segments maintained their GIFR at 1.06% and 1.90%, respectively.
- Asset quality in the construction sector weakened, with the GIFR rising to 4.56% in April from 4.51% in March, suggesting worsening project cash flows and repayment capacity within the sector.
- Meanwhile, the mining and quarrying sector recorded slightly better financing quality, with the GIFR declining to 8.16% from 8.40% previously, supported by improved operational stability and relatively resilient commodity-related activities.

THANK YOU